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## HEDGE FUND PLATFORM ~ 'HFP' Outline and Terms Sheet

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*Commercial in Confidence*

This is a draft terms sheet which outlines the agreement between VanMac Asset Management Pty Ltd ('VanMac Group') ABN: 64 102 999 717 or nominee company ('VanMac Group' or "The Investment Advisor") and [The Superannuation Fund] ("The Client") herein called the "parties". This outline and terms sheet is intended to be a guide or roadmap statement of intent to be later expanded into legal documentation.

### **PREAMBLE**

With more and more Australian superannuation funds needing to access the global universe of hedge funds as part of a move into alternative investments VanMac, using Greenwich Alternative Investments' research capability, has designed a flexible hedge fund platform solution to address these needs. VanMac's Hedge Fund Platform enables Australian superannuation funds to increase their allocation to this sector from the current 4% to nearer the 15% recommended allocation of the total portfolio over the next 5 yrs.

We have in mind that clients will maintain control over the platform constituents providing enhanced transparency and education while reducing portfolio risk and fees. We want clients to be fully involved in this investment allocation and investment decision process.

With this in mind we have devised a platform where these objectives can be met for little/no upfront cost and an overall reduction of fees (initial target fee saving of 50 bpts pa vs wholesale fund of fund fees) to access alpha generating returns from the global hedge fund universe.

This document sets out the terms and conditions of this platform and the roles and obligations in principle of the parties. However you will note that this document is a roadmap only and we are flexible with the final detail. We anticipate further input to the construction of the Alpha pool constituents and welcome input from specific clients to ensure alignment of investment objectives are met.

### **VANMAC GROUP**

VanMac Group is an Australian Securities and Investments Commission licensed (AFSL No: 225867) company specializing in hedge fund manager procurement, consulting and product design and implementation. VanMac Group has an exclusive partnership arrangement in Australia and New Zealand with Greenwich Alternative Investments LLC ('GAI') whom provide research and due diligence on hedge funds globally. In addition Greenwich have created hedge fund index tracking style concentration groups/ or funds and offshore structured product solutions.

VanMac have been using GAI's research capability since 2002. Our expertise lies in being client focused and innovative in design, structuring, and managing alternative portfolios. VanMac, using GAI's research capability has developed several offshore structured notes on behalf of Australian based institutional clients. These 'fund of funds' structures currently have exposure to approximately 40 offshore hedge fund managers whom in turn manage some USD\$40bn in total. Greenwich Alternative Investments (and predecessor company Van Hedge) have been researching managers for some 20 yrs and collecting data on the hedge fund universe since 1988. Currently GAI has approximately 7,500 managers in its database and provides research services to Morgan Stanley Group among other notable clients. It is as a result of this industry expertise and knowledge and such blue chip connections that we

continue to partner with GAI. GAI not only have good strong client relationships but also have excellent relationships with managers that have been built up over many years.

**THE PLATFORM – ‘HFP’**

**We plan to custom build an Australian based hedge fund administration and reporting platform that meets specific client needs.**

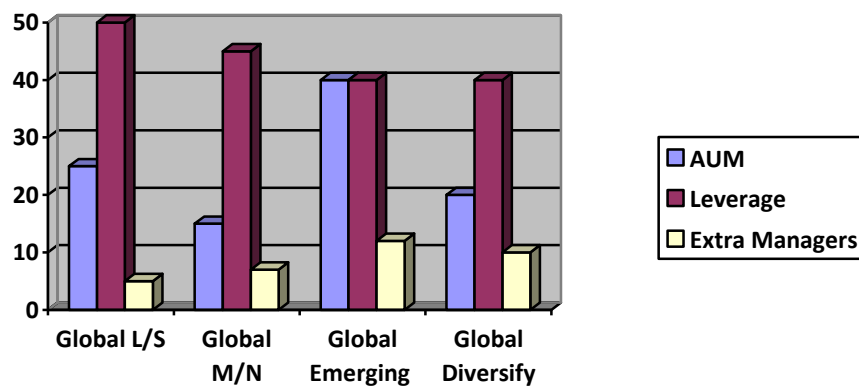
The objective of the platform is to provide the investment team at each client/ super fund with access to the returns generated by initially four specific largely uncorrelated Alpha pools via strategy or concentrated silo’s/ pools which in turn have specific manager, style, geographic and risk/return exposures.

Such exposures (alpha returns) can then potentially be used in alpha porting strategies within the overall portfolio.

The Key features of the Hedge Fund Platform are:

- Diversified exposure to rigorously selected, single strategy hedge fund managers
- Based on four Core hedge fund manager strategy groups or concentrations;
  - Global Long/Short Equity managers
  - Global Market Neutral managers
  - Global Emerging Markets managers
  - Global a fully Diversified group of managers

(Graphical representation of hypothetical exposure below.)



- Core manager groups are described and recommended by GAI
- Customized portfolio design – for specific client requirements including weightings/tilts/risk tolerance
- Client to be involved with additional manager selection around each Core
- Transparent
- Quarterly/Monthly Liquidity
- Non recourse gearing from AAA or AA rated banks- 100-250% over principle cohort
- Administration provided by ‘PAXUS/PFS’

- Research and due diligence by GAI; in-house and other specialists
- Lower fees than w/s fund of funds

The Hedge Fund Platform gives investors a diversified portfolio based on four core strategies and the ability to tilt into/away from specific strategies on a quarterly rotation. In addition we anticipate that we will be dynamically rebalancing each strategy pool on a monthly review basis by including managers as the FUM increases and where any style drift or significant performance lag is observed. Thus providing liquidity and flexibility to vary exposures and at the same time ensure access to diversified sources of (alpha) returns globally and with risk/return considerations top of mind at all times. Hence we will focus on matching risk/return and volatility expectations of each client separately. So although we have targeted the index return characteristics of the GAI concentration groups at the Core, we will in fact be running an active approach to managing the platform.

We will establish this platform in Australia using a leading hedge fund administration system which will enable reporting, risk management, accounting and monitoring to be managed over the total hedge fund group and the separate strategy pools simultaneously. This will enable consolidation of returns and ease of integration and reporting to the main portfolio reporting system.

As the allocation grows we will add managers sourced by reference to research conducted by our research partners Greenwich Alternative Investments LLC.

In addition we will accept hedge fund research firms known to us whom will recommend on an adhoc basis new or exceptional managers. This will ensure we are accessing the best managers for each strategy pool. The aim here is to provide each client with research manager risk diversification and ensure objective best of breed manager selection and ongoing due diligence is accurate and timely and also diversified.

Further we will undertake internal direct due diligence on managers short listed by our research service providers and where relevant include executives from client's at the platform level investment committee to ensure transparency, intellectual transfer and education about the managers and this sector is achieved.

In addition each Core allocation can be enhanced by the appropriate addition of non-recourse leverage or gearing. The terms of such will be tailored to suit each clients risk and return objectives. However based on our experience variable gearing levels between 100 and 250 % would be available. The benefit of this modest and carefully applied leverage is to increase exposure to certain strategy groups, macro-economic opportunities without increasing market risk or when a specific alpha porting strategy is being applied.

## **EXISTING FUNDS**

Where there is an existing exposure to any hedge fund of funds we will carry out a full review of the existing managers and where appropriate renegotiate and integrate such holdings.

The current managers may then be rationalized where they do not meet certain hurdles of performance based on basic metrics of fee vs alpha vs generic benchmarks that we need to discuss and agree on. Or a client may use such an allocation as an additional Core strategy pool or their fully diversified Core pool as appropriate. This process will take a few weeks and requires the provision of all reports and facts so we may fully optimize the existing managers and exposures and any related business risks.

We will do this work only where the overall concept is agreed as we may absorb the costs associated with this review as part of the platform solution described above.

## **ADMINISTRATION SYSTEMS SUPPORT**

With so many managers both single strategy and fund of funds potentially on the platform it is important to note that the client reporting and administration is of paramount concern and requires special consideration.

With this in mind we are able to state that the Pacific Funds Systems specific hedge fund accounting portfolio administration and reporting system ('PAXUS/PFS') will be supporting the VanMac HFP.

This hedge fund accounting and fund of funds administration system is currently the backbone for some 30 global client sites/ administration companies and fund managers. More than 1000 separate funds rely on this system for all accounting and administration that in turn represents more than USD\$200bn in FUM. PFS/PAXUS was established at the start of 1999 and VanMac Group is pleased to have James Eldershaw the joint founder of this company as a non-executive Director. Significant clients of Paxus/PFS include Citigroup NYC; CSFB NYC and administration companies in Bermuda, Ireland, Luxemburg and Switzerland.

### **FEES and TERMS**

We anticipate a management fee of no more than 1.5% pa for the HFP. The HFP will not incur performance fees and will not be subject to a hurdle rate. This HFP Platform fee is equivalent to an expense ratio and includes administration, custody, trustee, accounting, audit, legal, directors insurance, and all other organizational expenses. We envisage this fee will reduce on a scale where AUM grow above USD\$1bn per client, in any period.

The longer term benefit of this platform is that it is scalable and as assets grow we will be able to negotiate down the costs attributable to running the platform on behalf of each client.

To obtain economies of scale we would suggest certain minimum tranches – these are to be discussed and are dependent on initial leverage allocations to each core fund. The platform would only be established for a client where a reasonable contract period is agreed. That is 5 yr + as we will then amortize and absorb all establishment and research costs.

Please contact me to discuss the implementation of this enlightened hedge fund platform solution for your group.

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